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Draft Modification Report for
UNC Proposal 0104

Dear Julian,

Thank you for the opportunity to comment on the above Modification Proposal and the accompanying Draft Modification Report. ExxonMobil International Limited is responding on behalf of its shipping entity ExxonMobil Gas Marketing Europe Limited. Given the nature of this modification proposal we have also sought and incorporated views from the South Hook LNG Terminal Company Ltd (owner and operator of the South Hook LNG Import terminal currently under construction) and the South Hook Gas Company Ltd (the LNG importer) in which ExxonMobil companies currently hold a 30% interest with Qatar Petroleum holding the remaining 70% in each case.

Proposal 0104

We do not support the proposal, are totally against its implementation in its current form and strongly advocate for rejection in its entirety.

Although version 4 of the proposal has been developed to try and alleviate some of the concerns expressed at workstream, we hope to demonstrate why we believe the proposal should not proceed further. Our comments and arguments are set out below and are referenced to the text of the *Draft Modification Report* ("**DMR**")

DMR "The Modification Proposal Version 4.0 of the Proposal *seeks publication, on National Grid's website by 16:00 D+1, of the aggregate physical LNG in storage levels (in kWh) of LNG Importation Facilities as being the stock held at 05:59 on the previous day. This information could be published through a workaround until an enduring system solution is developed. In general, National Grid is not obliged to publish or make available operational or market data where this is not made available to it"*

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The proposal is for publication by NGG of “aggregate physical LNG in storage levels” of LNG Importation Facilities. If implemented, and if it were safe to assume that there would be no other (consequential) regulatory intervention, we interpret this proposal to mean that in the first instance total inventory levels at the Isle of Grain would be published on the assumption that NGG has total inventory level information. We assume that NGG is provided with some inventory information through its commercial arrangement with the Isle of Grain as it is our recollection that the HSE placed a requirement on NGG to maintain a level of non-operational or non- production LNG stock which could be called upon for operational balancing purposes. (This was a mandated arrangement enabling Ofgem to approve conversion of Isle of Grain from a regulated peak shaving unit to an rTPA exempt Importation Terminal).

1. It is not clear to us what information NGG actually receives and it could be possible that NGG receives information relating to that part of the actual physical inventory required to demonstrate the storage (operating margins) service is being satisfied.
2. Even if NGG receives information relating to total physical inventory at Isle of Grain, it should not mean that NGG needs to disclose that quantity – indeed NGG should only ever need to consider disclosure of that quantity of “stored” LNG that relates to the commercial arrangements in place.

To Exemplify:

Tank Operating Minimum	X
LNG Stored to Service Storage Commercial Arrangement	Y
Production temporarily in tank	Z
Total Physical Inventory	X+Y+Z

Our interpretation of the relevant legislation, regulation and guidance on this point is that, at most, the proposal should only have ever related to disclosure of volumes Y. Other volumes, X and Z, do not relate to commercial storage services and instead are provided for purposes of production management. That is they provide an ability to maintain continuous pipeline gas flows from a batched delivery of produced LNG by sea tanker ; are required for plant operations including minimum stock for safe tank operation, inventory to support continuity in minimum flows (to avoid flaring of tank boil off gases) and to optimise blending of rich and lean LNG production deliveries. This part of inventory, as a matter of law/regulation, has been considered to be production related and in the context of UNC 0104 therefore could not be compared with that for any inventory that is storage related.

For the avoidance of doubt the market itself has clearly demonstrated that LNG Import Tankage is constructed for production purposes whilst developers who wish to offer gas storage services to the market have chosen to provide those services most economically by constructing storage facilities using salt caverns and/or depleted dry gas fields.

The proposal that physical inventories be aggregated over all LNG Import Facilities is also poorly specified. For instance any inventory related disclosures (even ones that restricted to inventory held as part of a commercial or regulated storage service) should be avoided until or unless there is (as an absolute minimum) three or more users involved in the aggregate

disclosure, to avoid a breach of commercial confidentiality (we understand ERGEG have adopted a similar guideline).

In the case of Isle of Grain, the number of Users in question may only be one (NGG) for that part of inventory relating to a storage service but may involve three Users if the proposal indeed relates to total physical inventory. If the proposal is indeed that total physical inventory is published (i.e. $X+Y+Z$) the ERGEG guideline would not be met if only Isle Of Grain is captured as for production volumes $X+Z$ it would appear to involve only two commercial Users for the most part at this time.

In our view a better proposal that would more likely be acceptable to all industry would be to aggregate all storage service related inventory data for all facilities, whether such services are offered at LNG import terminals or at dry gas facilities, into a single GB wide aggregate. This removes all concerns that emerge on a disaggregated “facility by facility” disclosure where commercial confidentiality is risked. We continue to believe that facility by facility granularity on the same type of information (be it either real time flow or commercial gas storage inventory) improves market efficiency beyond that achievable by aggregation of the same information across all facilities. It is the nature of the information and symmetry of its provision across the relevant market that matters the most.

DMR : *“It is very important that this data is published to the wider market, as improvements in transparency will assist in a number of ways, specifically, by allowing market participants to make more appropriate purchasing decisions based on fuller market information;.....”*

It is not clear what part of physical inventory information is available to NGG and what part can be released by them, and hence it is difficult to make any assessment of the value to the market of such undetermined information.

The proposal seems to imply that the (wholesale) market would form different prices (at the NBP) if historical inventory information is available to it – we cannot know exactly how the market would form a more efficient price but of course we would never rule out that certain information may contribute to greater market efficiency. What we do believe is relevant here, is that market prices are formed at a single GB trading HUB, the NBP, and there are no HUBS at any individual storage facility or at any LNG Import Facility that might be offering storage services. For this reason, we continue believe there is no incremental benefit to efficient price formation at the NBP from publication of storage service related inventory (or production flow) information at individual facility level.

We question whether knowledge of inventory at D+1 at an individual facility would improve security of supply. It may be that the market could react to low or high commercial storage inventories by forming higher or lower prices in the forward market – and providing the trigger for incremental purchase or selling action. On the other hand the market could become more inefficient if one or more purchasers reacted to knowledge of one facility inventory without taking into account other similarly relevant information including a higher storage inventory at another location. In that sense, aggregate information on storage related inventory reduces the risk of poor purchasing or selling decisions and increases the likelihood of a more efficient market.

We believe that real time flow information in essence is the most reliable information as to what is happening with production through an LNG terminal of which inventory “Z” is a part. Changes in the level of production related inventory will be frequent and should not be easily predictable at a specific facility. Again, any proposal to publish production related inventory has to be considered in the context of the upstream market as this is the relevant market in this case. As the information is outwith the domain of the UNC it is wholly inappropriate to consider such information in the context of downstream market segments.

DMR: *“Importation Operators, through their contractual arrangements with shippers, should therefore, seek to meet the minimum requirements of the Guidelines for Good Practice for System Storage Operators for information provision (which includes published numerical data on gas in store).”*

No, we disagree. The GGPSSO can at best only be considered relevant in relation to occasional (and so far only regulated or mandated) storage services entered into at LNG import terminals. The only service of that nature that exists is the one mandated at Isle of Grain and that we have presumed that service does not cover the entire physical inventory at Isle of Grain.

Again, and for avoidance of doubt, tankage provided as part of an LNG Import terminal is provided for production purposes – the terminal project dictates (designs) tankage with a working volume necessary to handle the effects of a batch production process and deliveries by ship. It is generally more cost effective to install tankage (upstream at the loading point and downstream at the import terminal) to cope with this batch process rather than to build ships and leave them idle. The production inventory in the tanks of an import terminal will cycle up and down (see-saw) between operating minimum and tank high levels. Residence times of production LNG in tankage are short on average (“temporary”) compared with the residence times of dry gas in salt caverns typically associated with bulk commercial storage.

DMR : *“In order for the market to operate efficiently, it is important that the arrangements in place are as transparent as possible. At the moment, some parties (notably producers) have access to information, which other parties (notably downstream suppliers, traders and customers) do not have. By allowing all parties access to near to real time sub terminal information this should permit the market to operate more efficiently.” The provision of storage information at LNG Importation Facilities is no different in this respect and should improve transparency in the market, as supported by the Authority in the Proposal 006 decision.”*

Producers do have more information than other market parties – and downstream market parties have more information than producers... so we think that is a rather obvious statement that adds no value by its self.

Clearly, where Producers hold information that is production-related it will be relevant to considerations of competition in the upstream market. There are cases where such information may also be relevant to price formation in the wholesale market. Where it may be relevant in both markets, consideration of the effects in each should be given and judgements exercised accordingly as to its release. We have, so far, seen no consideration whatsoever given to the upstream market issues raised by this proposal.

LNG Import terminal inventory associated with production will generally be considered as sensitive commercial information in the upstream market, and as such will not be provided to NGG.

***DMR :** “The asymmetric nature of the data made available from LNG Importation Facilities means that market transparency is clouded. Importation Operators, through their contractual arrangements with shippers, should therefore, seek to meet the minimum requirements of the Guidelines for Good Practice for System Storage Operators for information provision (which includes published numerical data on gas in store).”*

As already mentioned, at the very most, the application of the GGPSSO to LNG terminal inventory must be limited to that part of LNG inventory that is associated with a storage service and other ERGEG guidelines should apply e.g. as relates to minimum number of Users for aggregation purposes.

Production-related inventory is, in our view, much more relevant in the upstream market and is considered to be sensitive information released in that market. This may explain why it appears asymmetric to downstream participants and why asymmetry in itself is not an argument by itself that should drive disclosure.

***DMR:** “A11.1 (a) the efficient and economical operation of the pipe-line system:
The Proposer suggested that implementation would provide Shippers with the appropriate level of information to enable them to better forecast demand and thus make appropriate trading decisions to balance their portfolio, with associated physical actions resulting in improved balance of the system as a whole.”*

We just cannot see how historical inventory (especially if limited to that part of inventory held in conjunction with a storage service) could be asserted to help forecast demand. It is not for us to say whether such information would alter an individual shipper’s view of its own demand, but to imply that inventory information would allow a shipper to better forecast demand in aggregate is just absurd – that would require all shippers or customers to publish their market demand changes consequential upon receipt of the inventory information. Whilst that would be “symmetrical” and might allow more efficient price formation, we would argue that the symmetrical publication of changes in all customer forward demands is not a pragmatic approach.

***DMR:** “A11.1 (c) the efficient discharge of the licensee’s obligations under this licence:
With respect to security of supply, the Proposer suggested that implementation would assist Shippers in better forecasting demand, enabling them to make more efficient purchasing decisions, consequently reducing price volatility and facilitating security of supply. BG Group has suggested that this statement was illogical “as knowing actual or potential supply cannot help shippers forecast demand, as demand is driven by factors different to, and separate from, those which influence supply. It is therefore not clear from the Mod, how the availability of such information would enable better forecasting of demand, despite requests at the Workstream for an explanation as to how this would work in practice.” Some Transmission Workstream attendees argued that changes to the commercial regime, including this Proposal, would increase the likelihood that deliveries of LNG would be sent to locations other than GB, and would reduce willingness to invest in facilities to enable the importation*

of gas to this country. Hence implementation could be expected to lead to higher gas prices and reduced security of supply”

We are in general agreement with all of the points made in this section. Whether importers would actually send the LNG elsewhere because of transparency requirements on inventory levels is a difficult point to substantiate.

Perhaps a better way of assessing such a risk would be to test whether the rational and reasonable transparency requirements of an efficient wholesale market can be shown in simple terms not to be to the detriment of the upstream segment. When transparency proposals cannot be shown to meet such tests then there is an increased risk that an exporter might start to discount the GB market where there are alternative market choices.

DMR : “A11.1 (d) the securing of effective competition (i) between relevant shippers and (ii) between relevant suppliers:”

The Proposer suggested that implementation would provide a level playing field where all Shippers and Suppliers would have access to the same information, provided through an established, consistent and transparent basis. However, if implementation discouraged gas from being imported into the GB market, leading to higher gas prices, this would be counter to facilitating effective competition between Shippers and between Suppliers. BG Group has contended that as this Proposal “only proposes publishing one item of information, it cannot create a level playing field as it is not proposing a complete solution for information provision where all players on both the supply and demand side have access to equivalent information i.e. demand side players having access to supply side information and supply side players having access to demand side information. Furthermore as the Mod would only apply to one LNG terminal this clearly would result in a playing field severely tilted against those companies using that terminal.” BG Group also believed that “neither economic theory, nor practical experience of markets, required all players to know each others' information and positions. In a competitive market, such as the UK wholesale gas market, it is the interaction of supply and demand via different buyers and sellers which results in prices changes which signal the state of supply-demand balance, and hence helps informs participant's trading decisions. Since the UK already has information on sub terminal gas flows in a market which balances on a national basis, standard product definition (i.e the gas is of the same specification), and good price discovery through market reporting and electronic exchanges, it is not clear how the Mod would add anything to improve competition.”

We wholeheartedly agree with the views accredited to BG Group above.

DMR: “3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

The Proposer suggested that implementation would result in improved balance of the system as a whole through provision of information to shippers "to enable them to better forecast demand and thus make the appropriate trading decisions to balance their portfolio, with associated physical actions."

For reasons given above, this assertion is simply not credible. It is symptomatic of a process that is at risk of breaking down i.e. that such unsubstantiated statements are allowed to proceed into a consultation text.

DMR: “8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Parties involved in the importation of gas through LNG Importation Facilities would need to consider the implications of making information available to National Grid NTS if this Proposal was implemented.”

We agree with the statement in principle but cannot countenance the proposal being implemented in its current form in any event.

The Proposer suggested that implementation may assist Consumers in being “as aware as possible of market conditions to determine if they can or wish to sell back gas/interrupt as part of demand side response.

This statement simply cannot be considered acceptable in the absence of further substance. If allowed, it would seem that any party might be entitled to seek publication, of any minutiae of information in the market whether demand or supply side.

DMR: “10. Analysis of any advantages or disadvantages of implementation of the Modification

Proposal Advantages:

- Improved information available to market participants to make appropriate purchasing decisions in a potentially tight supply/demand conditions, thereby facilitating improved aggregate system balancing and security of supply.*
- Creates level playing field for market participants in terms of information availability thereby assisting a more efficient market to reduce the ultimate cost of gas to all consumers. BG Group has made it clear it did not accept these advantages for reasons highlighted in Section 2 of this report.*

Disadvantages

- Fails to recognise distinction between storage and LNG Importation*
- Increases Transporter and LNG Importation Terminal Operator costs to generate, aggregate and publish the required information*
- Provides additional information which is not relevant and has the potential to mislead the market*
- Discriminates against Importation Facilities that provide LNG-in-storage information to National Grid by requiring publication of information not provided with respect to other entry points*
- Discourages importers from bringing gas to the GB market*

Petgas Trading (UK) Limited has explained that importers would be discouraged “due to the inconsistency in terms of the regulatory regime for LNG importation facilities. This proposal is against the principle in which exemptions are being granted to facilities such as Dragon LNG and South Hook LNG and the UIOLI mechanism currently being implemented at the Isle of Grain facility.

BG Group has also pointed out the following:

- *“The Mod does not recognise that LNG import terminals are not defined as storage in the Gas Act. Furthermore the EU Gas Directive 2003/55/EC clearly excludes LNG terminals import terminals when dealing with storage. (“Article 19 paragraph 2. The provisions of paragraph 1 shall not apply to ancillary services and temporary storage that are related to LNG facilities and are necessary for the re-gasification process and subsequent delivery to the transmission system.”) The Guidelines for Good Practice for Storage System Storage Operators clearly state that they only apply to storage facilities in accordance with the Gas Directive. The Mod Proposer is therefore mistaken in wanting the GGSSO requirements for information provision to apply to LNG import terminals.”*

- *The SME notes that BG Group also made reference to The Gas (Third Party Access) Regulations 2004, Schedule 2, Amendments to Gas Act 1986, para 6. Section 19 states the following:*

(c) in subsection (1) for the definition of "LNG facility" substitute –

““LNG import facility” means a facility for the following -

(a) the importation of liquid gas;

(b) the regasification of liquid gas following its importation and prior to its conveyance to a pipeline system operated by a gas transporter; and

(c) any temporary storage of liquid gas which is necessary for the operation of the facility;”;

And

(j) in subsection (1) for the definition of "storage facility" substitute – ““storage facility” means a facility in Great Britain (excluding the territorial sea adjacent to the United Kingdom) for either or both of the following –

(a) the storage of gas in cavities in strata or in porous strata, provided that the facility is or will be used for the storage of gas which has previously been conveyed in a pipeline system operated by a gas transporter;

(b) the storage of liquid gas; but the reference in paragraph (b) to the storage of liquid gas does not include such temporary storage as is mentioned in paragraph (c) of the definition of “LNG import facility””;

- *BG Group has also pointed out that implementation of this Proposal would “discriminate against one LNG terminal and its users.”*

We agree that all of the disadvantages stated are disadvantages from our point of view. Equal none of the advantages claimed are advantages from our point of view.

We are sympathetic to the sentiment being expressed by Petgas Trading in this section; assessments of market and regulatory risk have undoubtedly changed with UNC 006 and could change again were this proposal implemented in its current form.

We are very concerned that the transparency review process has been disjointed and piecemeal, the ideas have been taken forward at different speeds in different jurisdictions (with the UK way ahead of Europe) and in GB have been unnecessarily granular at implementation; decisions made have been made on the basis of voluminous and complex

argument and analysis much of which is incapable of explanation to major new investors in GB.

Summary

We do not support modification proposal 0104. The validity of the original proposal was questioned by the mod panel with Ofgem who dismissed the concerns expressed at the time. We look forward to seeing a Final Modification Report that lays fully bare the issues with the proposal as drafted and trust that it will be sufficient to demonstrate that the proposal is neither clear nor contained enough to be allowed to proceed to implementation.

On the wider matter of Information transparency in GB we firmly believe it is now time for Ofgem to take a lead to encourage GB market participants to pause before bringing forward more proposals such as this one: we would support a broad review, perhaps best conducted within the Transmission Workstream, of what information markets reasonably need in order to work efficiently. A principal objective of such a review would be to try and establish confidence and certainty in relation to regulatory objectives so that risk can be properly assessed. A pause for review now would seem to us helpful in showing GB willingness to allow the rest of Europe to catch up.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'I. Trickle', with a large, sweeping flourish underneath.

Ian Trickle